

PUBLIC HEARING

ON

Bill 20-485, “Meridian International Center Real Property Tax Abatement Act of 2013”

**Before the
Committee on Finance and Revenue
Council of the District of Columbia**

Councilmember Jack Evans, Chairman

**January 13, 2014, 10:15 AM
John A. Wilson Building, Room 500**



**Testimony of
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**Jeff DeWitt
Chief Financial Officer
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Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am John Ross, Senior Advisor to the Chief Financial Officer for Economic Development Finance. I am pleased to testify today on behalf of the CFO on the “Meridian International Center Real Property Tax Abatement Act of 2013.”

The proposed legislation would exempt the Meridian International Center¹ from all taxation. Meridian is a not-for-profit organization, and is not subject to income tax, personal property tax, or sales tax. The proposed legislation would therefore only impact the real property tax that Meridian would otherwise be required to pay on its properties, which are known as the Meridian House and the White-Meyer House. The proposed legislation would also forgive and refund any payments made by Meridian related to real property taxes, penalties, fees and interest.

The legislation states that Meridian shall be exempt from real property taxation so long as its property is used in carrying out the tax-exempt purposes and activities of Meridian International Center. However, to the extent that the Meridian House and the White-Meyer House are used for any

¹ Meridian International Center is located in Lots 806, 808, and 809 in Square 2568 and Lots 2369-2401, 2413-2417, 2423, 2441, and 2442 in Square 2567, and is known as the Meridian House and the White-Meyer House (along with the grounds thereof and certain parking spaces).

commercial purposes, the legislation also provides that rent or other income generated at the property must be used for the maintenance and preservation of Meridian's properties. This type of exception for commercial use benefitting a non-profit owner typically is not a part of other real property tax exemptions offered in the District.

The Meridian House was exempted from District real property tax in 1962, and the White-Meyer House and associated parking lot were exempted from District real property tax in 1988. In 2004, Meridian conveyed a portion of its property² to a residential developer, who subsequently conveyed 41 parking spaces back to Meridian. Meridian submitted an Application for Exemption from Real Property Taxes for the parking spaces, but the Office of Tax and Revenue (OTR) denied the application in 2009, and charged taxes on the lots retroactively to in FY 2006.

Current District law requires not-for-profit organizations to pay real property taxes unless they are used for purposes such as public charity principally in the District or buildings operated by schools, colleges or universities.³ Because OTR has determined that Meridian does not meet these definitions,

² The conveyed property was known as Lot 850 in Square 2567.

³ See D.C. Official Code §§ 47-1002(8) and 47-1002(10).

in September 2012, OTR officially revoked Meridian's property tax exemption for the Meridian House and the White-Meyer House.⁴

Meridian has appealed both the amount of its real property tax assessment and the revocation of its exempt status. OTR denied Meridian's appeal of the assessed amount. The appeal of the revocation is currently before the D.C. Superior Court.

Based on the exemptions granted in 1962 and 1988, Meridian never had to budget for real property taxes. Meridian is a not-for-profit organization, and it is dependent upon contracts and grants for the vast majority of its revenue. It has experienced an operating deficit in 5 of the last 6 years. However, there is no large mortgage or debt on the property, meaning that most expense items are related to conducting its programming. In order to pay its real property taxes, Meridian would likely need to cut program activities. Alternatively, Meridian could dip into its reserve to make the payments.

The Office of Economic Development Finance (EDF) estimates that Meridian's real property tax liability would be about 5% of its total

⁴ Lots 806, 808 and 809 in Square 2568. The District has permitted a limited exemption on the portion of the White-Meyer House that houses Meridian's Cafritz art gallery.

expenses.⁵ Based on EDF's analysis of the information provided by Meridian, the payment of real property taxes, although a hardship, is unlikely to cause Meridian to cease operations.

Although cutting expenses or dipping into reserves is not an easy task, exempting Meridian from real property taxation could set a precedent for other not-for-profit organizations that do not meet the District's definitions for exemption from real property taxation. These organizations currently include real property taxes in their expense line items when they are considering how much money they have to provide for services and programming. Exempting Meridian from this requirement could encourage other not-for-profit organizations to ask for similar exemptions.

Funds are not sufficient in the FY 2014 through FY 2017 budget and financial plan to implement the proposed legislation. Approximately \$1.27 million would need to be budgeted in FY 2014. Of this amount, Meridian would be refunded approximately \$100,000 for taxes and penalties and interest paid, and approximately \$630,000 in real property taxes and

⁵ About 60% to 65% of Meridian's revenue and expenses are considered pass through funds. The funds are provided directly from the U.S. Government for international visitors travel costs (*per diems*, local travel, cultural allowances, etc.) and the funds go directly to visitors.

penalties and interest currently due would be forgiven. EDF estimates the proposed value of the exemption to be approximately \$538,000 annually (increasing each year) for a total of \$26.8 million over a 30 year period. Although the total was calculated over a 30-year period, the exemption would remain in place indefinitely.

Thank you for the opportunity to testify. I am happy to answer any questions at this time.